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Tax Items for You to Consider Before Year-End

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What a year it is has been so far, with the coronavirus pandemic throwing a wrench into our way of life. Social distancing from one another and wearing masks have become the new normal. Our nation has faced unprecedented times in terms of shutdown. Many businesses and schools have found themselves embracing technology in order to operate and move forward. Our government has taken several actions to provide relief to business and individual taxpayers, with the passing of the Coronavirus Aid, Relief, and Economic Security Act (the CARES Act). Many small businesses have benefited from the Payroll Protection Program through the Small Business Administration, and most individuals received stimulus money. While the CARES Act has helped millions during the initial surge of the coronavirus, additional relief is still needed, as the coronavirus continues to hold steady across our nation. Currently the government is working through details on how to provide additional relief, but when or how much is still unknown. As we continue to move into the new normal with staggered reopening of businesses, returning to school, and the upcoming election, it is time to think about year-end tax planning. The last few months of this year is the perfect time to revisit your tax situation and get a head start on determining potential tax liability.

Some quick thoughts to consider before year-end:

Unemployment Benefits: Unemployment benefits are included in taxable income. If you received unemployment benefits this year and did not have taxes withheld from payments, you might have an unexpected tax liability due by April 2021. There is still time to make estimated payments to avoid underpayment penalties and interest.

Itemized Deductions: With the higher standard deduction limits, many individuals are now taking the standard deduction compared to the itemized deduction. However, there is an opportunity to maximize deductions across years by bunching your itemized deductions in one year and then taking the standard deduction in the following year. For example, a taxpayer may choose to give more to charity in one year (with the intent to itemize) and less to charity the next year (with the intent to take the standard deduction). By doing so, the taxpayer may be giving the same amount to charity over the two-year period. Bunching the deduction in one tax year enables the ability to itemize and recognize a larger deduction over the span of two years.

Maximize Deferrals to Retirement/Health Savings Accounts: Both tax-deferred retirement and health savings account contributions are subject to annual limits. Review what you have contributed year-to-date and determine if you want to increase salary deferrals to reach the maximum. If you are age 50 or older, consider taking advantage of the catch-up contribution limits that are available.

Consider Roth Conversions: If your taxable income is lower in 2020 compared to previous years, then it could be a good year to convert Traditional IRA accounts to Roth IRA accounts. While the conversion may increase taxes for 2020, it decreases the potential tax liabilities in future years. Assuming qualified distributions are taken, future distributions and investment income inside the Roth IRA accounts are tax-free.

Adjust Capital Gains and Losses: Given the volatility of the stock market this year, investors may be able to identify holdings in taxable accounts that can be sold to offset capital gains from other investments, lowering your capital gain amount.

Stimulus Payment from CARES Act: Stimulus payments are still being made through the end of 2020. If you are eligible and have not yet received a stimulus payment you will be able to claim it when you file your 2020 tax return.

Every tax situation is different. As always, if you have any questions regarding your personal tax situation, please contact one of our team members at Buckingham Advisors.